AR80

REPORT TO THE SHAREHOLDERS

Fiscal 2005 ended April 30, 2005 proved to be a pivotal and eventful year for Norex. The Company achieved record profitability, operations were consolidated thereby reducing operating costs and our first corporate acquisition was successfully completed on May 31,2005.

Revenue for fiscal 2005 increased by 24% over 2004 to $14,138,526.Profitability was further enhanced by a decrease of 19% in direct costs resulting in net earnings of $650,658 or $0.11 per share. Earnings before interest, taxes, depreciation and amortization ("EBITDA") increased to $1,282,403 or $0.21 per share. Fiscal 2005 results were bolstered by our activity level in the fourth quarter (i.e.winter) which historically is the busiest season for western Canadian seismic activity. The increase in sales can be attributed to activation of our second crew due to increasing demand for seismic services in western Canada and the awarding of additional contracts as compared to previous quarters. Our fourth quarter of fiscal 2005 proved to be a record quarter for Norex.

Seismic contracts can range from the provision of recording services only with the customer assuming costs for all sub-trades, up to the seismic acquisition company contracting all sub-trades in addition to providing seismic recording services. Sub-trades can consist of permitting, surveying, drilling, line cleanup and processing. We were successful in contracting and completing several recording only contracts thereby reducing sub-contractor or direct costs and increasing net revenue as a function of sales.

The reduction in direct costs was further enhanced over the last four months of our fiscal year by a savings in general and administrative expenses due to the consolidation of operations to one location and the reduction of third party professional services. Specifically, significant legal, accounting and audit costs were incurred in 2004 for a corporate acquisition which was strategically aborted in the spring of 2004.

Further savings were realized by the closure of our Calgary based processing center. This temporary closure was deemed necessary in view of the planned future relocation of the center to eastern Canada. This move of the processing facilities including hardware and software was completed subsequent to our fiscal year end.

In line with our strategy to reduce equipment rental costs in November 2004 the Company signed a 3 year capital lease arrangement with an equipment manufacturer to acquire 2200 strings of geophones valued at $825,000. To date we have primarily rented geophones as a straight expense and at a cost in the order of $400,000 per year. Under this new capital lease, by paying the equivalent of rental fees on an "as used "basis, title will transfer to Norex once 300 days of usage is reached. We anticipate this will have occurred by the spring of 2006, with substantial savings in equipment rental costs thereafter.

On May 31, 2005 Norex acquired all the issued outstanding shares of two private companies, Geophysical Applications Processing Ltd. of Guelph, Ontario and

Geophysical Applications, Inc. of Elmira N.Y., together commonly known as GAPS, for a total purchase price of $1,599,601. The purchase price was comprised of $1,066,401 cash and the issuance of 1,254,589 common shares of Norex.

Norex's principal motivation in completing the GAPS acquisition is to reduce seasonally cyclical nature of our business. GAPS peak seismic season in eastern Canada and the northeastern United States is typically in the summer months as opposed to Norex's active winter season. GAPS owns two crews with equipment compatible with that of Norex and primarily operates in the Appalachian, Illinois and Michigan basins and in Ontario and surrounding regions. GAPS typically utilizes its smaller cable crew for 2D confirmation work, engineering and environmental studies.

With the compatibility of equipment and reciprocal seismic seasons between Norex and GAPS equipment can be moved back and forth in the fall and spring thereby reducing rental costs even further. As indicated previously, the Norex processing facility has been moved to Guelph, Ontario to compliment GAPS existing support center. Much of GAPS data acquisition includes data processing in contrast to western Canada where the norm is to separate processing from acquisition.

In connection with the GAPS acquisition, and as a testament of the founding shareholders commitment to the future of Norex, three outstanding shareholder loans to the Corporation totaling $210,002 were converted to Common Shares at a transaction price of $0.425 per share resulting in the issuance of 494,123 shares to the original founders of Norex.

In May 2005, the Company finalized new banking arrangements with the Royal Bank of Canada. This included an increased operating line of $1,750,000 payable on demand and a 3 year term loan of $1,500,000. Interest rates are 1.5% and 2% over prime respectively and the facilities are secured by a general security over all assets of the combined companies. Even though we had an excellent relationship with our previous banker, the Canadian Western Bank ("CWB"), it was deemed necessary to change to a national bank in view of our cross-Canada, cross-border banking requirements. We wish to personally extend our appreciation to the CWB and its staff for having been there when needed and we look forward to a mutually rewarding future with the RBC.

As announced on August 9, 2005 Norex entered into an agreement with Mr. Paul Crilly and an unrelated party for a total combined private placement of $625,000. Proceeds from this private placement will be used for working capital purposes. Upon completion of the private placement Mr. Crilly will be appointed President, Chief Financial Officer and Director of the Company.

Mr. Crilly has had various executive positions in the oil and gas service sector, has significant merger and acquisition experience and has extensive knowledge of the capital markets. He was most recently President and CEO of an oilfield cementing company until the sale of his equity interest to a premier North American pressure pumping company. Mr.Crilly is a Chartered Accountant and holds a Bachelors of Commerce

degree. Mr. Crilly will be instrumental in the successful execution of the Company's strategic business plan.

Norex's strategy is focused on maximizing profitability in its current operations, while also expanding its operations geographically. The Company continues to review other acquisition opportunities which will provide additional economies of scale and will increase equipment utilization further.

While Norex achieved record revenues and earnings in the fourth fiscal quarter of 2005, we were negatively impacted by the unusually wet spring and early summer in western Canada. In addition, we experienced delays in activating our crew in Texas, the revenue of which was anticipated in the first quarter of 2006. On a positive note, the start-up of the Texas work is now expected in the second quarter. We have also signed an agency agreement with a Dallas based geophysical consulting firm for purposes of obtaining additional work in Texas. This, in addition to GAPS marketing efforts and reputation for providing a quality product, will stand Norex in good stead as we continue to focus on the U.S. markets. In Texas, Norex will be using its proprietary Enviro-vibe surface energy source which is ideally suited to the Barnett Shale play. This play is attracting considerable attention and with the demand for crews in Texas generally, it is conceivable that our crew will remain deployed there until late fall/early winter.

We wish to firstly extend our thanks to the dedicated employees of both Norex and GAPS. Their dedication and perseverance is much appreciated…just a bit longer and we will soon be working as one. Our thanks and appreciation also to our Board of Directors; whose input and guidance has proven invaluable to our corporate vision and planning. Finally, a sincere note of gratitude from the Directors, staff and management to our shareholders for their continued commitment and patience while we strive to build a pre-eminent seismic service company.

On behalf of the Board of Directors

B.(Ben) Berg, Chairman of the Board
Paul A. Crilly, President

NOREX
EXPLORATION SERVICES

AUDITED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED
APRIL 30, 2005

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of Norex Exploration Services Inc. as at April 30, 2005 and 2004 and the statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) KPMG LLP
Chartered Accountants

Calgary, Canada
August 22, 2005

NOREX EXPLORATION SERVICES INC.

Balance Sheets
As at April 30

	2005	2004
Assets		
Current assets		
Accounts receivable	$ 6,165,529	$ 3,650,172
Prepaids and deposits	46,209	31,827
	6,211,738	3,681,999
Goodwill	150,000	150,000
Capital assets (*note 3*)	2,213,531	1,822,069
	$ 8,575,269	$ 5,654,068
Liabilities and Shareholders' Equity		
Current liabilities		
Operating lines of credit (*note 4*)	$ 543,359	$ 855,332
Accounts payable and accrued liabilities	5,197,817	2,736,595
Demand loan (*note 5*)	43,119	215,607
Current portion of capital lease obligations (*note 6*)	476,296	164,463
	6,260,591	3,971,997
Capital lease obligations (*note 6*)	449,933	457,632
Due to shareholders (*note 7*)	211,627	222,001
	6,922,151	4,651,630
Shareholders' equity		
Share capital (*note 8*)	357,611	357,611
Retained earnings	1,295,507	644,827
	1,653,118	1,002,438
	$ 8,575,269	$ 5,654,068

Commitments (*note 13*)
Subsequent events (*note 14*)

Approved by the Board:

(signed) B. (Ben) Berg Director

(signed) Dallas Droppo Director

See accompanying notes to financial statements.

NOREX EXPLORATION SERVICES INC.

Statements of Operations and Retained Earnings
For the years ended April 30

		2005		2004
Revenue				
Seismic acquisition and processing	$	14,138,526	$	11,403,484
Direct expenses				
Contractors		6,005,380		4,339,254
Wages, benefits and subsistence *(note 10)*		2,645,747		2,764,281
Field supplies and consumables		2,116,144		1,420,841
Equipment rentals		1,080,815		1,376,945
Vehicle operating		217,028		178,591
		12,065,114		10,079,912
Income before the undernoted		2,073,412		1,323,572
General and administrative expenses		830,980		873,132
Amortization		537,860		508,678
Interest on debt and capital leases		93,863		106,179
Other income		(39,971)		(16,927)
Gain on sale of capital assets		–		(45,812)
Income (loss) before income taxes		650,680		(101,678)
Current tax recovery *(note 9)*		–		(15,104)
Net income (loss) for the year		650,680		(86,574)
Retained earnings, beginning of year		644,827		731,401
Retained earnings, end of year	$	1,295,507	$	644,827
Income (loss) per share – basic and diluted *(note 8)*	$	0.11	$	(0.01)

See accompanying notes to financial statements.

NOREX EXPLORATION SERVICES INC.

Statements of Cash Flows
For the years ended April 30

		2005		2004
Cash provided by (used in)				
Operations				
Net income (loss) for the year	$	650,680	$	(86,574)
Items not involving cash				
Amortization		537,860		508,678
Gain on sale of capital assets		–		(45,812)
		1,188,540		376,292
Change in non-cash working capital (*note 11*)		(68,517)		22,514
		1,120,023		398,806
Investing				
Acquisition of capital assets		(139,696)		(381,403)
Proceeds from disposal of capital assets		–		68,500
		(139,696)		(312,903)
Financing				
(Repayment of) proceeds on operating line of credit (net)		(311,973)		188,037
Repayment of demand loan		(172,488)		(46,050)
Repayment of obligations under capital lease		(485,492)		(227,890)
Repayment of amounts due to shareholders		(10,374)		–
		(980,327)		(85,903)
Change and ending balance of cash and cash equivalents	$	–	$	–

Supplemental cash flow information:

Interest paid	$	93,863	$	106,179

See accompanying notes to financial statements.

1. Basis of presentation

Norex Exploration Services Inc. (the "Company") is incorporated under the Business Corporation Act (Alberta) and its common shares trade on the TSX Venture Exchange. The Company is a geophysical services company that provides specialized seismic acquisition services.

2. Significant accounting policies

The financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada and, in management's opinion have been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

(a) Capital assets

Capital assets are recorded at cost. Amortization is provided at various rates designed to amortize the assets over their economic useful lives. Rates are as follows:

Asset	Basis	Rate
Office equipment	declining balance	20%
Communications equipment	declining balance	20%
Vehicles	declining balance	30%
Exploration equipment	declining balance	20 - 30%
Cables and geophones	declining balance	30%
Computer hardware	declining balance	45%
Computer software	declining balance	100%
Seismic data	declining balance	20%
Tapes	declining balance	30%
Leasehold improvements	straight-line	30%
Other	straight-line	33%

(b) Leases

Leases are classified as capital or operating leases. A lease that transfers substantially all of the benefits and risks incident to the ownership of property is classified as a capital lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred. Assets recorded under capital leases are amortized on a declining balance basis over the life of the assets.

(c) Per share amounts

The Company utilizes the treasury stock method in the determination of diluted per share amounts. Under this method, the diluted weighted average number of shares is calculated assuming that proceeds arising from the exercise of in-the-money options and other dilutive instruments are used to purchase, for cancellation, common shares of the Company at their average market price for the period.

(d) Revenue recognition

Revenue from the sale of seismic acquisition services is recognized in the statement of operations when the related data is delivered to the customer.

2. **Significant accounting policies** (continued)

(e) Government assistance

Claims for assistance under a government grant program are recorded as a reduction of the cost of expenses in the period in which eligible expenditures are incurred.

(f) Future income taxes

The Company follows the liability method of accounting for income taxes. Under this method future tax assets and liabilities are determined based on differences between financial reporting and income tax bases of assets and liabilities, and are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in net income in the period in which the change is substantively enacted. A valuation allowance is recorded against a future income tax asset if it is more likely than not that the asset will not be realized.

(g) Stock-based compensation plan

The Company has a stock-based compensation plan, which is described in note 8. Options granted to employees under the plan are issued at current market value and consideration paid to the Company on the exercise of stock options is credited to share capital. Options granted by the Company are accounted for in accordance with the fair-value method of accounting for stock-based compensation, and as such the cost of the option is charged to earnings with an offsetting amount recorded to contributed surplus, based on an estimate of the fair value using the Black-Scholes option-pricing model.

(h) Goodwill

Goodwill represents the excess of the cost of an acquisition over the net of the amounts assigned to assets acquired and liabilities assumed. Goodwill is not amortized but is assessed for impairment at least annually or as events occur that could result in impairment. The Company monitors its goodwill balance to assess whether any impairment has occurred by comparing the fair value of net assets to the carrying value of net assets, including goodwill. If this assessment indicates that goodwill will not be recovered, the amount of goodwill in excess of its recoverable amount is charged to earnings in the period the impairment is identified.

(i) Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accounts receivable are stated after evaluation as to their collectibility and an appropriate allowance for doubtful accounts is provided where considered necessary. The amount recorded for depreciation of capital assets is based on estimates of useful lives and other relevant assumptions. These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

3. Capital assets

April 30, 2005	Cost	Accumulated amortization	Net book value
Office equipment	$ 52,350	$ 28,631	$ 23,719
Communications equipment	44,599	30,955	13,644
Vehicles	522,732	392,599	130,133
Exploration equipment	3,474,535	2,364,225	1,110,310
Cables and geophones	1,217,727	484,799	732,928
Computer hardware	18,442	10,051	8,391
Computer software	3,167	2,620	547
Tapes	3,472	2,564	908
Leasehold improvements	39,372	1,875	37,497
Seismic data	200,830	56,232	144,598
Other	38,010	27,154	10,856
	$ 5,615,236	$ 3,401,705	$ 2,213,531

April 30, 2004	Cost	Accumulated amortization	Net book value
Office equipment	$ 38,452	$ 24,438	$ 14,014
Communications equipment	43,504	27,681	15,823
Vehicles	497,535	343,992	153,543
Exploration equipment	3,425,462	2,075,300	1,350,162
Cables and geophones	428,101	339,893	88,208
Computer hardware	17,381	6,228	11,153
Computer software	3,167	2,073	1,094
Tapes	3,472	2,175	1,297
Seismic data	200,830	20,083	180,747
Other	28,010	21,982	6,028
	$ 4,685,914	$ 2,863,845	$ 1,822,069

During the year, $929,322 (2004 – $381,403) of assets were purchased, of which $789,626 (2004 – nil) of geophones were purchased through a capital lease. At April 30, 2005, the total cost of assets under capital lease was $1,785,893 (2004 – $996,267) with related accumulated amortization of $554,000 (2004 – $292,550).

4. Operating line of credit

The Company has a $1.0 million secured revolving line of credit facility due on demand and bearing interest at the bank prime rate plus 2.25%. The facility is secured by a general security agreement on all present and after-acquired assets with permitted encumbrances to specific leases, a first charge on specific assets with a net book value of $324,160 (2004 – $408,752) and a postponement of shareholders loans. As at April 30, 2005, $543,359 (2004 – $855,332) had been drawn on this facility. See note 14(d).

5. Demand loan

The Company has a demand loan at bank prime rate plus 2.25% payable in monthly installments of $14,374 (2004 – $14,374) plus interest and secured by a general security agreement and a first fixed charge over certain assets with a net book value of $324,160 (2004 – $408,752). See note 14(d).

6. Capital lease obligations

The Company has the following capital lease obligations:

		2005		2004
Capital lease with an implicit interest rate of 5.375% per annum having blended monthly payments ranging from $10,000 to $28,917, from June 2002 to September 2006 and secured by leased assets with a net book value of $544,867 (2004 – $681,084).	$	323,394	$	597,685
Capital leases with interest rates ranging from 8.7% to 10.1% per annum having blended monthly payments of $1,492 to April 2006 and secured by leased assets with a net book value of $15,843 (2004 – $22,633).		11,910		24,410
Capital lease with an implicit interest rate of 6.5% per annum having blended monthly payments of $35,750 from October to May each year until May 2007 and secured by leased assets with a net book value of $671,182.		590,925		–
		926,229		622,095
Less principal payments due within one year		(476,296)		(164,463)
	$	449,933	$	457,632

Future annual principal payments as at April 30, 2005 are as follows:

2006	$	476,296
2007		414,375
2008		35,558

7. Related party transactions

(a) During the year ended April 30, 2005, the Company was charged $182,250 (2004 - $158,500) by officers and directors for administrative and consulting services. These amounts are recorded at the exchange amount agreed to by the related parties.

(b) Advances from shareholders in the amount of $211,627 (2004 - $222,001) are non-interest bearing, unsecured with no fixed terms of repayment. The advances were converted to common shares of the Company in May 2005. See note 14.

8. Share capital

(a) Authorized

Unlimited number of common shares

(b) Common shares issued

	Number of Shares		Amount
Balance, April 30, 2003, 2004 and 2005	6,078,675	$	357,611

(c) Stock options

The Company has a stock option plan, administered by the Board of Directors, in which up to 10% of the issued and outstanding common shares are reserved for issuance. The options granted under the plan vest immediately and expire at the earlier of five years from date of grant or the date from which the optionee ceases to be a director, employee or consultant.

The following tables summarize information about stock options outstanding and exercisable:

	April 30, 2005		April 30, 2004	
	Options	Weighted – Average Exercise Price $	Options	Weighted – Average Exercise Price $
Opening	375,000	1.00	475,000	1.00
Cancelled	(50,000)	1.00	–	–
Expired	–	–	(100,000)	(1.00)
Closing	325,000	1.00	375,000	1.00

The weighted average remaining contractual life of options outstanding at April 30, 2005 is 1.89 years.

(d) Per share amounts

Per common share amounts were calculated using a weighted average number of shares outstanding at April 30, 2005 of 6,078,675 (2004 – 6,078,675). In computing diluted per share amounts, no shares were added to the weighted average number of common shares outstanding during the year ended April 30, 2005 (2004 – nil) for the dilutive effect of options. A total of 325,000 (2004 – 375,000) options were excluded from the diluted calculation as they were anti-dilutive.

9. Income taxes

The provision for income taxes differs from the amount obtained by applying the combined Federal and Provincial income tax rate to income (loss) before income taxes. The difference relates to the following items:

		2005		2004
Statutory rate		33.62%		34.5%
Expected income tax expense (reduction)	$	218,759	$	(35,120)
Non-taxable items		(12,263)		–
Non-deductible expenses		1,425		1,313
Effect of change in tax rate		10,964		11,932
Change in tax pools		209,155		–
Other		(16,420)		(4,197)
Change in valuation allowance		(411,620)		10,968
Income tax recovery	$	–	$	(15,104)

The components of the net future income tax asset are as follows:

		2005		2004
Future income tax assets (liabilities)				
Capital assets	$	(101,278)	$	311,987
Non-capital loss carryforwards		93,654		86,001
Share issue costs		4,066		6,267
Other		3,558		7,365
		–		411,620
Less: Valuation allowance		–		(411,620)
Net future income tax liability	$	–	$	–

As at April 30, 2005, the Company had approximately $278,500 in non-capital losses available for deduction against future taxable income, the benefit of which has been recognized in these financial statements.

Non-capital losses expire as follows:

2010	$	12,900
2014		265,600
	$	278,500

10. Government assistance

In July 2003, the Company received a grant for 80% of salaries incurred in the direct performance of seismic processing research. During the year ended April 30, 2005, $16,573 (2004 – $67,403) of grant proceeds were earned and recorded against direct wages and benefits.

11. Change in non-cash working capital

		2005		2004
Accounts receivable	$	(2,515,357)	$	230,439
Prepaids and deposits		(14,382)		(4,068)
Income taxes receivable		–		2,787
Accounts payable and accrued liabilities		2,461,222		(206,644)
	$	(68,517)	$	22,514

12. Financial instruments

(a) Fair values of financial assets and liabilities

Financial instruments of the Company consist mainly of cash, accounts receivable, operating line of credit, accounts payable and accrued liabilities, debt, capital leases and shareholders' loans. As at April 30, 2005 and 2004, there were no significant differences between the carrying amounts reported on the balance sheet and their estimated fair values. The Company has not entered into any hedging contracts.

(b) Credit risk

The majority of the Company's accounts receivable are in respect of seismic acquisition and processing operations. The Company generally extends unsecured credit to these customers, and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions and may accordingly impact the Company's overall credit risk. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credit. The Company has not experienced any material credit loss in the collection of receivables in the past.

(c) Interest risk

The Company is exposed to interest risk on its operating line of credit and demand loan for which the interest rates charged fluctuate based on the bank prime rate. Management does not consider this risk to be significant.

13. Commitments

Under the terms of lease agreements for its premises and vehicle operating leases, the Company is committed to the following payments:

2006	$ 218,405
2007	160,722
2008	51,210

14. Subsequent events

(a) In May 2005, the Company acquired all of the issued and outstanding shares of two private companies, Geophysical Applications Processing Services Ltd. ("GAPS") and its affiliate, Geophysical Applications Inc. ("GA") for $1,066,401 cash and 1,254,589 common shares of the Company.

(b) In connection with the above acquisition, the amount due to shareholders on the closing date was converted to 494,123 common shares of the Company.

(c) In connection with the above acquisition, the Company granted 100,000 stock options to an officer of the Company. The options vest immediately, are exercisable at $1.00 per share and expire in January 2007.

The acquisition also provides for a cash payment ("earn-out") to be paid to the officer at the end of each of the first three successive fiscal years of the Company, commencing with the fiscal year ending April 30, 2006. The maximum earn-out in each of the three years will be the greater of 10% of net income before amortization of the consolidated Company and $100,000. If the Company acquires or merges with another entity during the earn-out period, the percentage used in the earn-out calculation will be adjusted downward on a pro-rata basis based on the relative size of the other entity to the Company.

(d) In May 2005, subsequent to the acquisition described in (a) above, the Company signed a new banking agreement for an operating line available to a maximum of $1,750,000 bearing interest on the drawn portion at prime plus 1.5% and repayable on demand and a $1,500,000 term loan bearing interest at prime plus 2% repayable based on a three-year amortization of monthly payments to be determined. The facilities are secured by a General Security Agreement over all assets owned now and hereafter by the Company, GAPS and GA; a guarantee of all debts and liabilities owing to the lender, limited to $3,300,000, signed by GAPS and GA; and a $2,000,000 business insurance policy payable to the lender.

(e) In August 2005, the Company completed the private placement of 1,923,077 common shares at $0.325 per share to two directors and an arm's length party for net proceeds of $600,000.

15. Comparative figures

Certain comparative figures have been reclassified to conform with current year presentation.

NOREX EXPLORATION SERVICES INC.
Management's Discussion and Analysis
For the Three Months and Year Ended April 30, 2005

The following discussion and analysis of financial results for the year ended April 30, 2005 should be read in conjunction with the Company's consolidated audited April 30, 2005 financial statements and related notes.

Fourth Quarter Review

Results of Operations

Revenue for the quarter ended April 30, 2005 increased 50% to $6.9 million compared to $4.6 million for the quarter ended April 30, 2004. A general increase in industry activity levels, Norex's ability to add new customers to its client base in Western Canada and the activation of its second field crew contributed to the improvement in revenue. Although strong commodity prices spurred increased industry exploration activity, Norex did not experience any significant pricing improvements for the provision of its services. The Company expects that seismic acquisition prices will improve later in calendar 2005 as demand for services continues to remain strong.

Gross margins for the current quarter increased to $1.2 million or 17.3% of revenue compared to $0.5 million or 10.3% of revenue for the similar quarter of the prior year. Certain customers coordinated their own sub-contractors in the quarter, such as surveying companies, which resulted in Norex providing only seismic acquisition services. The provision of acquisition services alone provides relatively better margins as a percentage of revenues in that lower margin sub-contractor based revenues are minimized. The Company also realized a reduction in equipment rental costs as a result of purchasing seismic acquisition equipment in the current year.

General and administrative expenses in the current quarter were $232,338 compared to $278,145. The decrease in expenses was the result of a strategic decision to consolidate offices in Calgary and unusually high professional fees in the comparative quarter due to an aborted acquisition transaction.

The following table summarizes information about general and administrative expenses for the three months ended April 30 (certain 2004 figures have been reclassified to conform with current classification):

	Three months ended April 30	
	2005	2004
Office rent, maintenance, supplies	$ 78,785	$ 88,843
Professional consultants	36,952	86,554
Salaries and benefits	53,808	57,618
Management fees	49,000	21,500
Shareholder expenses	7,782	4,442
Miscellaneous	6,011	19,188
	$ 232,338	$ 278,145

The Company generated EBITDA of $1.0 million ($0.16 per share) in the quarter ended April 30, 2005 compared to $0.3 million ($0.04 per share) in the similar quarter of the prior year. Improved revenue and a higher gross margin percentage accounted for this increase.

Net income rose to $0.8 million ($0.14 per share) in the current quarter from $0.1 million ($0.02 per share) in the comparative quarter of the prior year. The Company utilized previously unrecorded tax losses to eliminate the effect of the expected current tax provision in the quarter.

Fiscal 2005 Annual Review

Norex Exploration Services Inc. is incorporated under the Business Corporation Act (Alberta) and its common shares trade on the TSX Venture Exchange. The Company is a geophysical services company that provides specialized seismic services including seismic data acquisition. The Company and its wholly owned subsidiary, Norex Geophysical Inc., were amalgamated on May 1, 2004.

Results of Operations

Seismic acquisition and processing services resulted in sales of $14,138,526 for the year ended April 30, 2005 as compared to $11,403,484 for 2004, representing a 24% increase. The increase in revenue was due to higher industry activity levels resulting from increased oil and gas exploration budgets. As a result, the Company experienced an increase in awarded contracts and operated a second crew to meet the demand. The Company's gross margin improved to $2.1 million or 14.7% of revenue compared to $1.3 million or 11.6% of revenue for fiscal 2004. The improvement in gross margin percentage can be attributed to fewer data acquisition projects requiring the full complement of sub-contractors thereby reducing direct costs and the Company's processing operations being temporarily on hold for future relocation. Furthermore, as a result of the Company acquiring additional field equipment in the year, equipment rental expenses for the year ended April 30, 2005 were reduced by $296,000 as compared to that for the year ended April 30, 2004.

General and administrative expenses for the year ended April 30, 2005 were $830,980 compared to $873,132 for the prior year. The decrease in general and administrative expenses for the comparisons on a year-over-year and quarter-over-quarter basis can be attributed the following primary items: a reduction in rent and other office expenses for the last four months of the year due to the consolidation of the Company's operations into one location as of March 1, 2005 and a reduction in the use of professional consultants as the prior year/quarter included costs related an aborted corporate acquisition, offset by an increase in management fees which were reduced in the prior year due to weak Company performance in 2004.

The following table summarizes information about general and administrative expenses for the years ended April 30 (certain 2004 figures have been reclassified to conform with current classification):

	Year ended April 30	
	2005	2004
Office rent, maintenance, supplies	$ 339,593	$ 386,853
Professional consultants	69,394	116,844
Salaries and benefits	197,226	180,254
Management fees	182,250	153,000
Shareholder expenses	17,322	15,584
Miscellaneous	25,195	20,597
	$ 830,980	$ 873,132

Amortization expense increased to $537,860 in fiscal 2005 compared to $508,678 in the prior year due to capital expenditures of $929,322 and $381,403 in the respective years. Interest on debt and capital leases decreased to $93,863 in 2005 from $106,179 in 2004 as a result of a reduction in a demand loan and a small reduction in capital lease obligations.

Net income for the year ended April 30, 2005 was $650,680 ($0.11 per share) compared to a loss of $101,678 ($0.01 per share). A substantial increase in revenues combined with improved margins accounted for the improved profitability. The Company utilized tax losses from prior years to eliminate its

tax expense in the current year leaving approximately $278,000 of non-capital losses to be utilized in subsequent periods.

Liquidity and Capital Resources

As at April 30, 2005, the Company's working capital deficit was $48,853 compared to $289,998 at April 30, 2004. The improvement in the Company's working capital is primarily due to the success of the 2005 fourth quarter results. The Company's current assets increased by $2,529,739 while current liabilities increased by only $2,288,594. The increase in current assets relates to receivables for the large contracts completed in March 2005. The increase in current liabilities relates to an increase in accounts payable commensurate with operating activities and additional current debt related to the capital lease obligation for the geophones purchased in the third quarter offset by a reduction in the outstanding balance of the operating line of credit and demand loan. As at April 30, 2005, the Company was in compliance with the established financial covenants of the existing banking agreement.

In May 2005, subsequent to the acquisition described under "Subsequent Events", below, the Company signed a new banking agreement for the provision of an operating line of credit to a maximum of $1,750,000 bearing interest at prime plus 1.5% and repayable on demand and a $1,500,000 term loan bearing interest at prime plus 2% repayable based on a three-year amortization of monthly payments to be determined. The facilities are secured by a General Security Agreement over all current and future assets of the Company, a $2,000,000 Royal Bank of Canada business insurance policy payable to the lender and guarantees by the Company's subsidiaries. The Company has no off-balance sheet arrangements.

Capital Spending

During the year ended April 30, 2005, the Company spent $929,322 on its capital spending program compared to $381,403 during 2004. 2005 capital spending is summarized as follows:

Capital assets, April 30, 2004	$	1,822,069
Cash purchases		139,696
Purchase via capital lease		789,626
Amortization		(537,860)
Capital assets, April 30, 2005	$	2,213,531

The capital purchase through a capital lease occurred in November 2004 and relates to an agreement to purchase geophones for which rental payments over the next three years are applied against the purchase cost. Previously the Company had been renting this equipment and expects the purchase to reduce geophone rental costs in the order of 60% to 70%, which would equate to savings of $300,000 to $400,000 in a typical year.

Share Capital

As at April 30, 2005, the Company's issued share capital consisted of 6,078,675 common shares (April 30, 2004 - 6,078,675). In May 2005, the Company issued 1,748,712 common shares in conjunction with the acquisition and shareholder loan conversion, and an additional 1,923,077 common shares in August 2005 in connection with a private placement, described under "Subsequent Events" below. As at the date of this MD&A, the Company's issued share capital consists of 9,750,464 common shares.

As at April 30, 2005, the Company had 325,000 stock options outstanding (April 30, 2004 – 375,000). During the year ended April 30, 2005, 50,000 options were cancelled upon the termination of an employee. In May 2005, the Company granted 100,000 stock options in conjunction with the acquisition described under "Subsequent Events", below. As at the date of this MD&A, the Company has 425,000 stock options outstanding.

As at April 30, 2005, all previously escrowed shares had been released.

Related Party Transactions and Balances

During the year ended April 30, 2005, the Company was charged $182,250 (2004 - $158,500) by officers and directors for administrative and consulting services. These amounts are recorded at the exchange amount agreed to by the related parties.

Advances from shareholders in the amount of $211,627 (2004 - $222,001) are non-interest bearing, unsecured with no fixed terms of repayment. The advances are converted to common shares of the Company in May 2005 as described under "Subsequent Events", below.

Commitments

Under the terms of lease agreements for its premises and vehicle operating leases, the Company is committed to the following payments:

2006	$	218,405
2007	$	160,722
2008	$	51,210

Selected Financial Information

Historical quarterly information, prepared by the Company and in accordance with GAAP, is as follows:

Three months ended fiscal 2005	April 30	January 31	October 31	July 31
	$	$	$	$
Revenue	6,875,066	3,943,645	2,140,081	1,179,734
Net income (loss)	823,639	146,823	41,976	(361,758)
Net income (loss) per share	0.14	0.02	0.01	(0.06)
EBITDA	995,485	372,674	159,338	(245,094)

Three months ended fiscal 2004	April 30	January 31	October 31	July 31
	$	$	$	$
Revenue	4,588,684	3,177,032	1,937,928	1,699,840
Net income (loss)	101,032	213,606	(272,498)	(128,714)
Net income (loss) per share	0.02	0.04	(0.04)	(0.02)
EBITDA	252,685	355,719	(137,698)	42,473

Subsequent Events

In May 2005, the Company acquired all of the issued and outstanding shares of two private companies, Geophysical Applications Processing Services Ltd. ("GAPS") and its affiliate, Geophysical Applications Inc. ("GA") for $1,066,401 cash and 1,254,589 common shares of the Company. GAPS' activity in eastern Canada, the northeastern U.S. and Texas is typically cyclical in the opposite seasons of Norex, which the Company expects will create a stronger unity and a more uniform revenue base throughout the year.

In connection with the above acquisition, the amount due to shareholders on the closing date was converted to 494,123 common shares of the Company.

In connection with the above acquisition, the Company granted 100,000 stock options to an officer of the Company. The options vest immediately, are exercisable at $1.00 per share and expire in January 2007.

The acquisition also provides for a cash payment ("earn-out"), subject to certain conditions, to be paid to the officer at the end of each of the first three successive fiscal years of the Company, commencing with the fiscal year ending April 30, 2006. The maximum earn-out in each of the three years will be the greater of 10% of net income before amortization of the consolidated Company and $100,000. If the Company acquires or merges with another entity during the earn-out period, the percentage used in the earn-out calculation will be adjusted downward on a pro-rata basis based on the relative size of the other entity to the Company.

On August 24, 2005, the Company completed the private placement of 1,923,077 common shares at $0.325 per share to two directors and an arm's length party for net proceeds of $600,000.

Outlook

Management is focusing on an expansion of current operations, potential acquisitions and geographic expansion. Management expects seismic industry conditions to strengthen as its clients increase exploration activities to replace depleting reserves. The Company continues to upgrade its equipment and is actively pursuing and marketing its unique surface energy source, Enviro-vibes. Given the acquisition of GAPS, the Company anticipates that the Enviro-vibes will have significant applications in Eastern Canada, Northeastern U.S. and Texas.

GAPS, with offices in Guelph, Ontario and Elmira N.Y. will be operated as a wholly owned subsidiary of Norex. GAPS is a full service company offering data acquisition including design and planning through to permitting and data processing for oil and gas as well as groundwater exploration, mining and engineering applications. To date GAPS has operated two crews: one crew in the Appalachian, Illinois and Michigan basin for 3D seismic; and a smaller cable crew in Ontario and surrounding regions for 2D seismic and environmental applications.

The equipment used by GAPS is compatible with that used by Norex. Since the Eastern season is reciprocal to that of Norex in the Western Canadian basin, the equipment can be moved back and forth in the spring and the fall thereby reducing rental charges considerably.

The seismic data processing facilities have been moved to Guelph to supplement GAPS existing processing capabilities. Much of the data acquisition performed by GAPS includes data processing as part of the acquisition contract. This is in contrast to Western Canada where the norm is to separate processing from the acquisition contractor.

The fourth quarter of Norex's fiscal 2005 year turned out to be a record quarter for the Company. In contrast, and as is typical of Western Canadian seismic activity, the first quarter of fiscal 2006 will be a disappointment due to road bans and an extraordinarily wet spring as wet conditions invariably immobilize seismic crews. The Company expects to report an operating loss in the quarter.

As indicated in previous press releases, activity in the Northeastern U.S. basins is increasing. Despite a slower than expected first quarter, we anticipate that GAPS marketing exposure and reputation for delivering a quality product will stand the Company in good stead in the very near future. Further to this, GAPS has commenced operations on a large 2D in the Gaspe Peninsula using GAPS' four large truck-mount vibe units. GAPS has also been awarded a contract for a September 3D job in New Brunswick and 2D work in New York. In short, Norex's design for geographic exposure and expansion is starting to show results through the GAPS acquisition.

Norex supervisory staff and four Enviro-vibes in combination with GAPS recording equipment and staff will be re-commencing operations in September for a number of 3D's in the Dallas Fort Worth region. We continue to actively market our services in Texas in anticipation of additional work in 2006.

In addition to the GAPS acquisition, the Company continues to investigate other opportunities for potential acquisitions, which will further contribute to our geographic expansion and enhance the combined operations of Norex and GAPS.

Business Risks and Uncertainties

The Company is exposed to several operational risks inherent in the acquisition and processing of seismic data. These risks include: commodity prices received by customers which impacts their decision to acquire new seismic data in combination with the competitive bidding process for the Company's services; the seasonality of field operations and the impact of adverse weather conditions; cost of capital risk associated with securing the needed capital to carry out the Company's operations; risk of environmental impact and credit risk of non-payment for sales contracts.

The Company maintains a comprehensive insurance program to reduce risk to an acceptable level and to protect it against significant losses. The Company's risk in regards to financial instruments is detailed in Note 12 to the consolidated financial statements.

Critical Accounting Estimates

In the application of accounting policies, management is often required to make judgments based on underlying estimates and assumptions about future events and their effects. Underlying estimates and assumptions are based on historical experience and other factors that management believes to be reasonable under the circumstances. These estimates and assumptions are subject to change as new events occur and additional information is obtained. The Company believes the following are the most critical accounting estimates used in the determination of its financial results:

Impairment of Long-Lived Assets

The Company is required to review the carrying value of all property and equipment, including the carrying value of mineral properties, for potential impairment. Impairment is indicated if the carrying value of the long-lived asset is not recoverable by the future undiscounted cash flows. If impairment is indicated, the amount by which the carrying value exceeds the estimated fair value of the long-lived asset is charged to earnings.

Income Taxes

The Company records future tax assets and liabilities to account for the expected future tax consequences of events that have been recorded in its consolidated financial statements and its tax returns. These amounts are estimates and the actual tax consequences may differ from the estimates due to changing tax rates and regimes, as well as changing estimates of cash flows and capital expenditures in current and future periods. A valuation allowance is recorded to the extent that there is uncertainty regarding utilization of future tax assets.

New Canadian Accounting Pronouncements

The Canadian Institute of Chartered Accountants ("CICA") has issued a number of accounting pronouncements, some of which may impact the Company's reported results and financial position in future periods:

Comprehensive Income / Financial Instruments / Hedges

The CICA issued new standards in early 2005 for Comprehensive Income (CICA 1530), Financial Instruments (CICA 3855) and Hedges (CICA 3865), which will be effective for the reporting year-end

2007. The new standards will bring Canadian rules in line with current rules in the US. The standards will introduce the concept of "Comprehensive Income" to Canadian GAAP and will require that an enterprise (a) classify items of comprehensive income by their nature in a financial statement and (b) display the accumulated balance of comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. Derivative contracts will be carried on the balance sheet at their mark-to-market value, with the change in value flowing to either net income or comprehensive income. Gains and losses on instruments that are identified as hedges will flow initially to comprehensive income and be brought into net income at the time the underlying hedged item is settled. It is expected that this standard will be effective for 2007 reporting. Any instruments that do not qualify for hedge accounting will be marked-to-market with the adjustment (tax effected) flowing through the income statement.

As the Company does not have any hedges in place, these new pronouncements do not impact the Company's current financial position.

Forward-looking Statements

Certain information set forth in this MD&A, including management's assessment of the Company's future plans and operations, contains forward-looking statements, which are based on the Company's current internal expectations, estimates, projections, assumptions and beliefs, which may prove to be incorrect. Some of the forward-looking statements may be identified by words such as "expects", "anticipates", "believes", "projects", "plans" and similar expressions. These statements are not guarantees of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause the Company's actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. The Company is a seismic acquisition and processing company and is exposed to a number of risks and uncertainties that are common to companies in the same business. These risks and uncertainties include demand for the Company's services which is affected by, among other things, the speculative nature of resource exploration and development activities, changes in resource prices, general economic, market and business conditions; competition for capital and skilled personnel; the ability to comply with current and future health, safety, environmental and other laws; actions by governmental or regulatory authorities including increasing taxes and changes in other regulations; and the occurrence of unexpected events involved in resource exploration.

This MD&A should not be considered all-inclusive as it excludes changes that may occur in general economic, political and environmental conditions. The Company cautions that actual performance will be affected by a number of factors, many of which are beyond its control. Investors are cautioned against attributing undue certainty to forward-looking statements.

This MD&A is dated August 24, 2005 and incorporates all relevant information and considerations to that date.